

October 21, 2003



Audit Oversight

Quality Control Review of
PricewaterhouseCoopers, LLP and
the Defense Contract Audit Agency
Office of Management and Budget
Circular A-133 Audit Report of the
MITRE Corporation, Fiscal Year
Ended September 30, 2001
(D-2004-6-002)

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Acronyms

AMS	Acquisition Management System
CPE	Continuing Professional Education
DCAA	Defense Contract Audit Agency
FAA	Federal Aviation Administration
FAR	Federal Acquisition Regulation
FFRDC	Federally Funded Research and Development Center
GAS	Government Auditing Standards
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PwC	PricewaterhouseCoopers
R&D	Research and Development



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October 21, 2003

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SUBJECT: Quality Control Review of PricewaterhouseCoopers, LLP and the Defense Contract Audit Agency Office of Management and Budget Circular A-133 Audit Report of the MITRE Corporation, Fiscal Year Ended September 30, 2001 (Report No. D-2004-6-002)

We are providing this report for your information and use. The audit firm of PricewaterhouseCoopers, LLP (PwC) and the Defense Contract Audit Agency (DCAA) performed the FY 2001 single audit for The MITRE Corporation, located in Bedford, Massachusetts. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," (OMB Circular A-133) requires the audit. The MITRE Corporation expended \$656.2 million in Federal awards under the Research and Development (R&D) cluster for three Federally Funded Research and Development Centers (FFRDCs) during the fiscal year that ended September 30, 2001. Of the \$656.2 million, \$524.4 million was expended under the DoD-sponsored FFRDCs and \$82.6 million under the Federal Aviation Administration (FAA) FFRDCs. The remaining \$49.2 million in expenditures were for the Internal Revenue Service FFRDC and non-FFRDC contracts.

Background. The MITRE Corporation is a not-for-profit organization that manages three FFRDCs for the DoD, the FAA, and the Internal Revenue Service. Since 1996, the FAA contracts have been subject to the FAA Acquisition Management System (AMS). The remaining contracts are subject to the Federal Acquisition Regulations (FAR). Formed in 1958, The MITRE Corporation has headquarters in Bedford, Massachusetts, and McLean, Virginia, with 60 sites around the world specializing in command, control, communications, and intelligence systems; developing a worldwide management system; and providing technical and program management advice on modernizing enterprise systems.

The PwC office in Washington, D.C., has provided OMB Circular A-133 audit services to The MITRE Corporation since 1995. The DCAA office in Lexington, Massachusetts,

has provided OMB Circular A-133 audit services to The MITRE Corporation since FY 1997. DCAA provides audit services to the FAA and the Internal Revenue Service on a reimbursable basis. PwC and DCAA coordinated and accepted certain audit responsibilities for the FY 2001 single audit of The MITRE Corporation. Audit responsibilities for the 14 compliance requirements of OMB Circular A-133 were divided between DCAA (9) and PWC (5)(Appendix B).

Quality Control Review Objective. As the cognizant Federal agency for The MITRE Corporation, the Office of the Inspector General of the Department of Defense (OIG DoD) performed a quality control review of the single audit report and supporting working papers for The MITRE Corporation's FY 2001 single audit. The objectives of the review were to determine whether the audit was conducted in accordance with Generally Accepted Auditing Standards, Government Auditing Standards (GAS), and the auditing and reporting requirements of OMB Circular A-133 and its related Compliance Supplement. The scope and methodology for the review is at Appendix A.

Review Results. The DCAA audit of The MITRE Corporation's Federal programs was not adequately planned, performed, and reported in accordance with applicable auditing standards and the audit guidance and requirements in OMB Circular A-133 and its related Compliance Supplement for the FY 2001 single audit. As a result of inadequate planning and performance, sufficient evidential matter was lacking to support the report's opinion on internal control and compliance with Federal program requirements. Therefore, Federal agencies could not rely on the audit report to manage their programs. Based on discussions with DCAA throughout our site visit, the DCAA auditors commenced corrective actions for the FY 2001 audit. As a result, DCAA provided sufficient support for its opinion on internal control and compliance, and Federal Agencies can now rely on the supplemental audit report dated August 27, 2003. The results of our review of DCAA corrective actions and our recommendations are discussed in finding A.

The MITRE Corporation's audit report met the reporting requirements in OMB Circular A-133; however, the Data Collection Form was not completed in accordance with the requirements of OMB Circular A-133 (finding B).

The PwC audit work generally met the applicable auditing standards and OMB Circular A-133 requirements. However, we did identify issues pertaining to audit documentation requirements and continuing professional education that should be brought to management's attention but that did not affect the results of our review. These issues are discussed in the "Other Matters of Interest" section of this report.

DCAA and MITRE provided comments concurring with the recommendations, (see management comments at pages 19 and 23, respectively), and are taking appropriate corrective actions.

Finding A. DCAA Audit Planning, Performing, and Reporting of Single Audit. The DCAA did not conduct the single audit work in accordance with the Generally Accepted

Auditing Standards and GAS and did not meet the applicable auditing guidance and requirements in OMB Circular A-133 and its related Compliance Supplement. The DCAA auditors failed to exercise due professional care because they did not perform sufficient audit procedures to support their opinion statement on compliance with major program requirements. As a result, Federal agencies could not rely on the audit report for assurance that The MITRE Corporation was managing Federal awards in compliance with all applicable and relevant laws, regulations, and award provisions. The DCAA auditors did not do the following:

- Identify and consider the FAA AMS regulation when planning and performing their audit of compliance requirements;
- Properly perform the audit of compliance requirements;
- Adequately document the support for audit conclusions;
- Report as an audit finding the circumstances for the qualification in the report on compliance with major programs; and
- Ensure that the DCAA audit report information was accurate.

Exclusion of the Federal Aviation Administration Procurement Regulation.

The DCAA auditors did not consider the FAA-unique acquisition regulations in planning and performing the single audit of The MITRE Corporation for FY 2001 because the DCAA auditors were not aware that the FAA had its own acquisition regulation, the AMS. Instead, the auditors conducted the single audit based exclusively on the requirements of the FAR. The AMS regulations were established in 1996 under the authority of the 1995 Department of Transportation Authorization Act (Public Law 104-264), which exempts FAA acquisitions from all other acquisition and procurement statutes and regulations. Because the DCAA auditors did not identify and consider the requirements of the AMS in their audit, their understanding and testing of internal controls and compliance were inadequate for the following compliance requirements:

- Activities Allowed or Unallowed
- Allowable Costs/Cost Principles
- Equipment and Real Property
- Procurement, Suspension, and Debarment

The standards of field work require that the audit be adequately planned to meet the audit objectives. The objective of the single audit of Federal programs is to provide assurance that the organization is managing and expending Federal funds according to the laws,

regulations, and contract and grant provisions that are material to the program. Identifying and understanding the FAA acquisition regulations are essential to meeting the audit objective. The DCAA auditors need to review and include the AMS regulation in their audit and perform audit procedures related to internal controls and compliance testing for the compliance requirements that DCAA is responsible for.

DCAA Corrective Actions. Based on our discussions of the deficiencies, DCAA performed additional procedures related to internal control and compliance against the AMS regulations and provided working paper documentation for our review. The additional procedures were for the allowable costs, allowable activities, equipment, and procurement requirements. Based on our review of the subsequent working paper documentation and limited retesting of the audit procedures performed, we consider the actions taken on the allowable costs, allowable activities and equipment requirements to be adequate. In addition, the DCAA auditors appropriately revised The MITRE Corporation's single audit report for FY 2001 to include references to the AMS regulation where appropriate.

However, the additional audit procedures performed to determine the adequacy of internal controls and compliance with procurement requirements were still inadequate. Specifically, DCAA relied on a limited comparison of AMS and FAR procurement regulations provided by the FAA program manager to determine that no additional audit work was needed because there were no significant differences between the two regulations. The objective of the program manager's comparison did not address the objectives of the procurement requirements relating to The MITRE Corporation. The objective of the OMB Circular A-133 requirements for procurement testing is to provide reasonable assurance that MITRE is complying with the FAA policy on subcontracting, while the objective of the program manager's comparison was to address procurements conducted by the FAA. Therefore, to comply with auditing standards and OMB Circular A-133 requirements, DCAA should have performed additional procedures to determine MITRE controls over and compliance with procurement requirements of the FAA FFRDC.

Audit of Compliance Requirements. An agreement between PwC and DCAA designated DCAA responsible for auditing nine compliance requirements (Appendix B). The DCAA audit of compliance requirements did not, in all cases, meet the applicable auditing standards, the audit guidance and requirements in OMB Circular A-133, and its related Compliance Supplement because the DCAA auditors did not:

- properly identify all of the applicable compliance requirements;
- use a representative sample of Federal awards to test compliance for the Period of Availability and the Equipment and Real Property Management compliance requirements; and

-
- perform adequate audit procedures to test compliance with major program requirements for the Special Tests and Provision compliance requirement.

Determination of Applicable Compliance Requirements. Of the nine compliance requirements that DCAA reviewed, the auditors concluded that three were not applicable to The MITRE Corporation's Federal programs: (a) Matching, level of effort, and earmarking, (b) program income, and (c) reporting. For the one compliance requirement concerning matching, level of effort, and earmarking, the DCAA auditors performed sufficient audit procedures to determine that this compliance requirement was not applicable. For the remaining two compliance requirements that were considered not applicable, the DCAA auditors determined that the compliance requirements were not applicable because The MITRE Corporation did not receive any grants within its FFRDCs. Based on this determination, the DCAA auditors did not perform any audit procedures related to understanding and testing internal controls or perform any compliance testing for program income and reporting compliance requirements.

The lack of receipt of grant awards is not valid justification for excluding these two compliance requirements from the audit of Federal awards. OMB Circular A-133 defines Federal awards as Federal financial assistance (to include grants) and cost reimbursable contracts. A grant is only one type of Federal award and should not be used as the sole basis in determining whether or not a compliance requirement is applicable. Our review of the FFRDC contracts disclosed numerous reporting requirements, thereby making the reporting compliance requirement applicable. Reporting requirements included, but were not limited to, the submission of contract funds status reports, technical reports, cost and schedule performance reports, subcontracting reports, and financial status reports. Although we did not perform specific procedures to determine whether the program income compliance requirement was applicable, the DCAA auditors should have performed additional audit procedures, such as those suggested in the OMB Compliance Supplement, Part 3-J, to properly determine the applicability of this compliance requirement.

DCAA Corrective Actions. Based on our discussion of the deficiencies prior to issuance of the draft report, DCAA performed additional auditing procedures to assess the applicability of the reporting and program income requirements. DCAA also performed internal control and compliance audit procedures as appropriate. DCAA provided us with supporting working paper documentation. DCAA performed additional procedures to adequately review the internal control over and compliance with the reporting requirement and supported their prior determination on program income. Based on our review, we consider DCAA corrective actions sufficient.

Audit Coverage and Representative Universe. The DCAA auditors did not plan for adequate audit coverage to achieve the objectives for the Period of Availability and the Equipment and Real Property Management compliance requirements. The DCAA auditors did not select transactions from a representative universe to test compliance. As a result, the sample selection was not representative of

all the FFRDC awards in the R&D cluster. The auditors selected transactions from a universe that contained only Air Force transactions for testing compliance with the Period of Availability requirement and that did not contain Internal Revenue Service transactions for testing compliance with the Equipment and Real Property Management requirements.

The American Institute of Certified Public Accountants Statements on Auditing Standards AU §350.24 states that sample items should be selected in such a way that the sample can be expected to be representative of the population. Therefore, all items in the population should have an opportunity to be selected. The DCAA auditors should have selected transactions from a representative universe of all FFRDCs to test compliance for these two compliance requirements.

DCAA Corrective Actions. Based on our discussion of the deficiencies prior to issuance of the draft report, DCAA performed additional procedures to address the compliance testing deficiencies for the Period of Availability and Equipment requirements and provided supporting audit documentation for our review. We consider the DCAA corrective actions sufficient.

Compliance Testing for Special Tests and Provisions. The DCAA auditors did not perform adequate tests of compliance for the Special Tests and Provisions compliance requirement. Although the DCAA auditors developed an understanding and performed limited testing of internal controls for this compliance requirement, the nature and extent of the compliance testing was insufficient to determine compliance. As part of their compliance testing, the DCAA auditors reviewed contract award documents and modifications to determine whether there were any special contract terms and provisions. However, based on our review of the DCAA audit documentation, there was no indication of what DCAA had considered to be special contract terms and provisions or indication of any audit work other than interviewing the resident administrative contracting officer to determine whether he monitors and tracks any special contract terms and provisions for the Air Force contract. Based on our review, there was no evidence of any transaction testing to test compliance with special contract terms and provisions, and there was no indication of any audit procedure performed to substantiate the assertions made by the resident administrative contracting officer.

Our review of the various FFRDC contracts showed special contract terms and provisions, including the prohibition of doing work for private concerns unless authorized in writing; requirements for background investigations; prior written approval from the contracting officer for employment of individual consultants or consultant firms to exceed 40 hours in any quarter; and prior written approval for the lease or purchase of equipment, software, or materials. The DCAA auditors should have performed additional audit procedures to adequately identify and test compliance for the Special Tests and Provisions requirements.

DCAA Corrective Actions. Based on our discussion of the deficiencies prior to issuance of the draft report, DCAA performed additional audit procedures to adequately test for compliance with special tests and provisions applicable to MITRE Federal Awards. The corrective actions taken involved reviewing MITRE sponsoring agreements, documenting special provisions, and performing additional audit procedures to adequately test for compliance. We consider DCAA corrective actions to be sufficient.

Audit Documentation. The DCAA auditors did not adequately document the support for internal control and compliance testing when they relied on procedures performed in other audit assignments, and the working papers did not document when an audit procedure was intended to serve as a dual-purpose test of internal control and compliance. In addition, the working papers did not document the auditing procedures performed to follow up on MITRE corrective actions to a purchasing system review recommendation.

The DCAA auditors did not provide an adequate audit trail to prior audit work and other audit assignments used to support significant conclusions in the FY 2001 audit. The audit documentation did not explain how the procedures performed in the referenced assignments fulfilled the audit objectives for the current OMB A-133 audit. For example, the audit documentation on internal controls for the Activities Allowed or Unallowed and Allowable Costs/Costs Principles requirements state that the auditors relied on the audit work performed for the prior FY 2000 OMB A-133 single audit and the FY 2001 Accounting System Review. However, the documentation did not identify the specific working papers within those two assignments where the referenced work was performed or describe how the procedures performed in the referenced assignments addressed the objectives of the review of internal control over compliance for the Activities Allowed or Unallowed and the Allowable Costs/Costs Principles requirements. As a result, the DCAA auditors had to provide significant oral explanations to enable us to determine whether there was sufficient evidence to support certain DCAA audit conclusions. In addition, during our review of the adequacy of internal control testing for the procurement and allowable costs and allowable activities requirements, the DCAA auditors had to verbally explain the testing methodology used to test internal controls and compliance because it was not in their audit documentation.

The DCAA working papers did not document that the auditors performed followup procedures to determine whether MITRE had taken the required corrective action on a formal recommendation from the Defense Contract Management Agency or on similar suggestions for improvement in two consecutive DCAA purchasing system review reports. During our review of the audit of purchasing system requirements, we discovered that the Defense Contract Management Agency performed a Contractor Purchasing System Review in January 2001, which resulted in a formal recommendation that required corrective actions by MITRE management. The Defense Contract Management Agency found that MITRE purchasing personnel did not have recent FAR training and recommended that employees be given training on U.S. Government

contracting and FAR requirements, focusing on areas subject to cost or requirements and/or exempt from cost or pricing data due to the acquisition of commercial items. DCAA included similar recommendations as a “Suggestion for Improvement” in purchasing system review reports issued in March 1998 and March 2001. However, because the followup procedures were not documented in the working papers, we had to rely on verbal explanations and documentation provided to us after our visit to determine that DCAA had performed adequate followup procedures for the FY 2001 audit.

GAS requires that audit documentation contain sufficient information to enable an experienced auditor, who has had no previous connection with the audit, to ascertain from the audit documentation the evidence that supports the auditor’s significant judgments and conclusions. Audit documentation should be appropriately detailed to provide a clear understanding of its purpose and source and should be appropriately organized to provide a clear link to the findings, conclusions, and recommendations. Without significant verbal explanations, we were unable, in many cases, to determine that the audit objectives were accomplished and that conclusions were supported with sufficient competent evidence.

Reporting. DCAA auditors qualified the report on compliance because they were not able to perform procedures necessary to rely on the work performed by other auditors on U.S. Government Classified/Special Projects. The DCAA audit report should have reported as an audit finding in the Schedule of Findings and Questioned Costs the circumstances that caused DCAA to give a qualified opinion on compliance for The MITRE Corporation’s major programs. OMB Circular A-133 section §__.510(a)(5) requires the auditor to report as an audit finding in the Schedule of Findings and Questioned Costs why the auditor’s report on compliance for major programs is other than an unqualified opinion. The DCAA auditors need to revise the findings section of the Schedule of Findings and Questioned Costs to include as an audit finding the circumstances for the qualification.

Accuracy of Audit Report Information. The FY 2001 single audit report contained several inconsistent statements that need to be corrected so that the report can be relied on by program managers and other report users.

The Schedule of Findings and Questioned Costs prepared by DCAA did not reflect the opinion on major program compliance that was stated in the audit report. Specifically, the DCAA opinion statement on compliance was qualified, however the Schedule of Findings and Questioned Costs, which summarizes report and audit information, reflects that the report on compliance with major programs contained an unqualified opinion. DCAA needs to correct the Schedule of Findings and Questioned Costs to reflect the correct audit opinion.

The DCAA report section “Subject of Audit” contains a statement that DCAA has the “responsibility to express an opinion on whether the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the auditee’s financial

statements taken as a whole.” However, as agreed under the coordinated audit approach, PwC was responsible for and rendered an opinion on the Schedule of Expenditures of Federal Awards. During our site visit, DCAA acknowledged that it was not responsible for and did not express an opinion on the schedule. Therefore, the DCAA auditors should have eliminated the statement from the FY 2001 single audit report.

Recommendation A. We recommend that the Branch Manager, Defense Contract Audit Agency Northern New England Branch Office:

1. Require the auditors to review the Federal Aviation Administration Acquisition Management System regulations and perform additional audit procedures to test internal control over and compliance with the criteria related to procurement compliance requirements for FY 2001.

2. Require the auditors to revise the Schedule of Findings and Questioned Costs to include the circumstances for the qualification as an audit finding for the FY 2001 single audit report.

3. Revise the FY 2001 single audit report for The MITRE Corporation to reflect the qualified opinion on compliance in the Schedule of Findings and Questioned Costs, to eliminate the reference to providing an opinion on the Schedule of Expenditures of Federal Awards, and to include references to the Acquisition Management System regulation where appropriate.

4. Submit a copy of the revised FY 2001 single audit report to the Controller of The MITRE Corporation.

5. Review and consider Federal agency-specific regulations in all future OMB Circular A-133 audits.

6. For all future OMB Circular A-133 audits, require auditors to document: (a) specific work paper references when relying on procedures performed in other audit assignments to satisfy current audit objectives and (b) testing methodology used to test internal controls and compliance.

DCAA Comments. DCAA Management provided comments, concurring with each of the recommendations (management comments at page 19). The actions taken meet the intent of our recommendations.

Finding B. Data Collection Form. The MITRE Corporation did not submit a Data Collection Form that fully complied with OMB Circular A-133 requirements. OMB Circular A-133 §__.320(b)(2)(x) and the instructions on the Data Collection Form require that Part III of the Data Collection Form report the programs within the R&D cluster at the same level of detail presented in the Schedule of Expenditures of Federal Awards.

We performed an initial review of the FY 2001 single audit report in January 2003 and notified The MITRE Corporation in a letter dated February 6, 2003, that Part III of the Data Collection Form was not accurately prepared and that a revised form should be submitted to the Federal Audit Clearinghouse. A revised form was submitted to the Federal Audit Clearinghouse; however, it was still incomplete. Specifically, the revised form still does not present Federal awards at the same level of detail as the Schedule of Expenditures of Federal Awards because it does not list the contract numbers associated with each Federal program.

Recommendation B. We recommend that the Controller of The MITRE Corporation:

1. Revise Part III of the Data Collection Form to list the programs within the Research and Development cluster at the same level of detail as in the Schedule of Expenditures of Federal Awards and submit the revised form to the Federal Audit Clearinghouse.

MITRE Comments. MITRE provided comments concurring with the recommendations (management comment at page 23). The Manager, General Accounting, stated that a revised FY 2001 Data Collection Form is being submitted to the Federal Audit Clearinghouse and that the level of detail is the same as the Schedule of Expenditures of Federal Awards.

2. Submit a revised FY 2001 single audit report that incorporates the revised Defense Contract Audit Agency FY 2001 OMB Circular A-133 audit report.

MITRE Comments. MITRE provided comments concurring with the recommendations. MITRE stated that it would submit the DCAA supplemental FY 2001 OMB Circular A-133 audit report to the Federal Audit Clearinghouse.

Other Matters of Interest. As a result of our quality control review, we identified the following issues that need to be addressed by PwC for future single audits. We discussed those issues with PwC officials and they agreed to implement corrective action for future single audits.

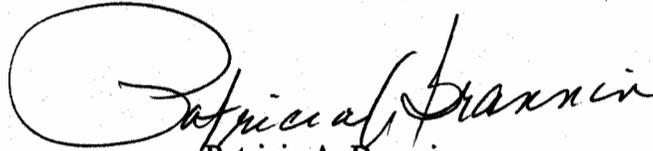
Audit Documentation Requirements and Enhancements. The PwC audit team on the MITRE Corporation Engagement needs to better document the audit work performed for OMB Circular A-133 audits. Specifically, for the single audit of The MITRE Corporation for the fiscal year ending September 30, 2001, the PwC auditors did not prepare a separate audit document to address the reasonableness of the status of findings and corrective actions taken by The MITRE Corporation as contained in the Summary Schedule of Prior Audit Findings. Other areas in need of audit documentation enhancements include providing a clear audit trail when referencing to other related audit documentation; creating a separate audit document to tie in all the elements on sampling; providing an overall conclusion in the audit documentation or whether an isolated

incident of noncompliance had a direct and material effect on the financial statement or major program; and ensuring that all audit documentation contain a legend to explain the results of the tests performed.

Continuing Professional Education. One of the PwC auditors engaged in the FY 2001 single audit of The MITRE Corporation did not have the required 24 continuing professional education (CPE) requirements related to Government auditing. Although we did not find any major impairment to the FY 2001 single audit of The MITRE Corporation, we believe that the issue warrants attention by PwC.

As part of the audit planning, PwC has an internal process in place that requires team members engaged in Government audits to complete and sign a form "Confirmation of Compliance with the General Accounting Office CPE requirements." The team manager is responsible for determining that each team member has completed the confirmation and/or other necessary documentation. We recommend that the MITRE engagement team follow PwC policy for completing and tracking the required GAO CPE compliance forms.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Ms. Janet Stern at (703) 604-8750 (DSN 664-8750) or Ms. Carolyn R. Davis at (703) 604-8877 (DSN 664-8877). See Appendix C for the report distribution. The review team members are listed inside the back cover of the report.



Patricia A. Brannin
Assistant Inspector General
for Audit Policy and Oversight

Appendix A. Quality Control Review Process

Scope and Methodology

We conducted a quality control review of the PricewaterhouseCoopers, LLP and the Defense Contract Audit Agency audit of The MITRE Corporation for the fiscal year ended September 30, 2001, and the resulting reporting package that was submitted to the Federal Audit Clearinghouse, dated March 6, 2003. We performed the review using the 1999 edition of the "Uniform Quality Control Guide for the A-133 Audits" (the Guide). The Guide applies to any single audit that is subject to the requirements of OMB Circular A-133 and the approved checklist of the President's Council on Integrity and Efficiency for performing the quality control reviews. Our review was conducted from May 2003 through July 2003 and covered areas related primarily to the audit of The MITRE Corporation's R&D cluster. As the cognizant agency for The MITRE Corporation, we focused our review on the following qualitative aspects of the single audit:

- Qualification of auditors
- Independence
- Due professional care
- Planning and supervision
- Internal control and compliance testing
- Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Audit Findings
- Data Collection Form

In conducting our review, we reviewed the audit documentation that PricewaterhouseCoopers, LLP and the Defense Contract Audit Agency prepared. We also discussed the audit with the PricewaterhouseCoopers, LLP, the Defense Contract Audit Agency auditors, and The MITRE Corporation personnel.

Prior Quality Control Reviews

Since October 1, 1998, we have performed five quality control reviews of PricewaterhouseCoopers LLP. One of the five reports contained deficiencies resulting in

findings and recommendations on audit planning, performance, and documentation and one report contained suggestions for improvements to audit documentation.

Since October 1, 1998, we have performed six quality control reviews of DCAA. Three of the six reports contained deficiencies resulting in findings and recommendations on audit planning, performance, and documentation. Our review indicates that similar deficiencies still exist.

Copies of Inspector General of the Department of Defense (IG DoD) reports can be accessed over the Internet at <http://www.dodig.osd.mil/audits/reports>.

Single Audit Requirements

The intention of the Single Audit Act, Public Law 98-502, as amended, and OMB Circular A-133 was to improve the financial management of State and local governments and non-profit organizations. The Single Audit Act and OMB Circular A-133 establishes one uniform set of auditing and reporting requirements for all Federal award recipients who are required to obtain a single audit. OMB Circular A-133 establishes policies that guide implementation of the Single Audit Act and provides an administrative foundation for uniform audit requirements of non-Federal entities administering Federal awards. OMB Circular A-133 requires that Federal departments and agencies rely on and use the single audit work to the maximum extent practicable. Entities that expend \$300,000 or more of Federal awards in a fiscal year are subject to the Single Audit Act and the audit requirements in OMB Circular A-133 and, therefore, must have an annual single or program-specific audit performed under GAS. To meet the intent of the law and OMB Circular A-133 requirements, the auditee (non-Federal entity) submits to the Federal Audit Clearinghouse a complete reporting package and a Data Collection Form on each single audit. The submission includes the following:

- Data Collection Form, certified by the auditee that the audit was completed in accordance with the OMB Circular A-133;
- Financial statements and related opinion;
- Schedule of Expenditures of Federal Awards and related opinion;
- Report on compliance and internal control over financial reporting;
- Report on internal control over compliance for major programs;
- Report on compliance with requirements for major programs and related opinion;
- Schedule of Findings and Questioned Costs;

-
- Summary Schedule of Prior Audit Findings; and
 - A corrective action plan, when appropriate.

The OMB Compliance Supplement (the Supplement) assists auditors to identify the compliance requirements that the Federal Government expects to be considered as part of the single audit. For each compliance requirement, the Supplement describes the related audit objectives that the auditor shall consider in each audit conducted under OMB Circular A-133 as well as suggested audit procedures. The Supplement also describes the objectives of internal control and characteristics that, when present and operating effectively, may ensure compliance with program requirements. The following 14 compliance requirements identified in the Supplement are applicable to the R&D cluster.

- A. Activities Allowed/Unallowed
- B. Allowable Costs/Cost Principles
- C. Cash Management
- D. Davis-Bacon Act
- E. Eligibility
- F. Equipment and Real Property Management
- G. Matching, Level of Effort, Earmarking
- H. Period of Availability of Federal Funds
- I. Procurement and Suspension and Debarment
- J. Program Income
- K. Real Property Acquisition and Relocations Assistance
- L. Reporting
- M. Subrecipient Monitoring
- N. Special Tests and Provisions

The Statement of Position 98-3, “Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards,” published by the American Institute of Certified Public Accountants, provides guidance on auditor responsibilities for conducting audits according to the Single Audit Act and OMB Circular A-133 (the AICPA has converted the Statement of Position into an audit guide). In general, the Statement of Position 98-3 provides auditors with an understanding of the unique planning, performance, and reporting considerations for single audits performed under GAS. In addition, the Statement of Position 98-3 uses summary tables and detailed discussions to provide the auditor with an understanding of the additional general, field work, and reporting requirements under GAS, including the additional standards relating to quality control systems, continuing professional education, working papers, audit followup and reporting.

The Statement of Position 98-3 emphasizes that when planning an audit to meet the requirements of OMB Circular A-133, several factors should be considered in addition to those ordinarily associated with an audit of financial statements in accordance with

Generally Accepted Auditing Standards and GAS. The factors include but are not limited to:

1. Determining that the Schedule of Expenditures of Federal Awards is presented fairly in relation to the financial statements;
2. Determining major programs for audit using a risk-based approach;
 - a. Determining compliance requirements;
 - b. Gaining an understanding of internal control over Federal programs;
 - c. Testing internal control over major programs;
 - d. Determining compliance with laws, regulations, and the provisions of contract or grant agreements that have a direct and material effect on each major program;
 - e. Satisfying the additional requirements of the Single Audit Act and OMB Circular A-133 for working papers, audit followup, and reporting.

Appendix B. Coordinated Audit Responsibilities for the Audit of Federal Programs

OMB Circular A-133 Compliance Requirements	Audit Responsibilities	
	DCAA	PWC
Activities Allowed or Unallowed	X	
Allowable Costs/Costs Principles	X	
Cash Management		X
Davis-Bacon Act		X
Eligibility		X
Equipment and Real Property Management	X	
Matching, Level of Effort, Earmarking	X	
Period of Availability of Federal Funds	X	
Procurement and Suspension and Debarment	X	
Program Income	X	
Real Property Acquisition and Relocation Assistance		X
Reporting	X	
Subrecipient Monitoring		X
Special Tests and Provisions	X	

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Director, Defense Procurement and Acquisition Policy

Other Defense Organizations

Director, Defense Contract Audit Agency
Branch Manager, Defense Contract Audit Agency Northern New England Branch Office
Director, Defense Advanced Research Projects Agency

Department of the Army

Assistant Secretary of the Army for Financial Management and Comptroller
Auditor General, Department of the Army

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)

Other Federal Agencies

Federal Aviation Administration
Office of the Inspector General, Department of Commerce
Office of the Inspector General, Federal Communications Commission
Office of the Inspector General, Department of Justice
Office of the Inspector General, General Services Administration
Office of the Inspector General, National Aeronautics and Space Administration
Office of the Inspector General, Department of State
Office of the Inspector General, Department of Transportation
Office of the Inspector General, Department of the Treasury

Non-Government Organizations

Board of Trustees, The MITRE Corporation
Audit Committee, The MITRE Corporation
Chief Financial Officer, The MITRE Corporation
Assistant Controller, The MITRE Corporation
Partner in Charge, PricewaterhouseCoopers, LLP
Audit Manager, PricewaterhouseCoopers, LLP
Board of Directors, American Institute of Certified Public Accountants

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Defense Contract Audit Agency Comments



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PQA 225.4 (D2003-OC-0102)⁶

October 8, 2003

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL, AUDIT POLICY AND
OVERSIGHT; INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: DCAA Comments on the Draft DoDIG Report on the Quality Control Review of
MITRE Corporation's FY 2001 OMB Circular A-133 Audit, Project No.
D2003-OC-0102

Thank you for the opportunity to respond to the draft report. The subject report provides the results of your office's quality control review of the OMB Circular A-133 audit performed at MITRE Corporation for fiscal year 2001. PricewaterhouseCoopers, LLP, and DCAA performed the audit on a coordinated basis.

DCAA concurs with the six recommendations presented in the subject report. Enclosed is our response to each of those recommendations. In addition, we offer the following comments to the concerns raised under Finding A of the draft report. In response to your initial concerns, DCAA performed supplemental field work. The draft report acknowledges that our corrective actions are sufficient, except that DCAA needs to (1) perform additional procedures to determine MITRE's control over and compliance with procurement requirements related to the Federal Aviation Administration Acquisition Management System (FAA-AMS) (Recommendation A.1) and (2) eliminate reference to providing an opinion on the Schedule of Expenditures (Recommendation A.3). I understand that documentation of additional field work to address these findings and recommendations was furnished to your staff for consideration subsequent to issuance of the draft report. The Region and Field Audit Office have assured us that future fiscal year audits at MITRE Corporation will appropriately consider each of the reported findings and recommendations.

If you have any questions, please contact me at (703) 767-3280 or Marc Parvin, Program Manager, at (703) 767-2250. Our e-mail addresses are rdimucci@dcaa.mil and marc.parvin@dcaa.mil.

A handwritten signature in black ink that reads "Robert DiMucci".

Robert DiMucci
Assistant Director
Policy and Plans

Enclosure:

Northeastern Region Response Dated Oct. 2, 2003



**DEFENSE CONTRACT AUDIT AGENCY
NORTHEASTERN REGION
Northern New England Branch Office
110 Hartwell Avenue, Suite 320
Lexington, MA 02421-3124
Telephone (781) 377-5644
Fax (781) 377-5680
E-mail: dcaa-fao2161@dcaa.mil**

**IN REPLY
REFER TO**

2161-2001G10110001
2161-2003G43010002

October 2, 2003

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, 400
ARMY NAVY DRIVE, ARLINGTON, VIRGINIA 22202-4704

ATTENTION: Ms. Patricia A. Brannin, Deputy Assistant Inspector General for Audit
Policy and Oversight

SUBJECT: Management Comments on the Discussion Draft Report of the DODIG
Quality Control Review of the DCAA Audit of The MITRE
Corporation compliance with the Office of Management and Budget
Circular A-133 for the Fiscal Year Ending September 30, 2001 (Project
No. D2003-OC-0102)

Thank you for the opportunity to respond to the referenced draft report. Our comments are provided for your consideration prior to the issuance of your Final Report. We have provided comments for each of the six recommendations made and referenced as "Recommendation A" of the draft report. Our comments are as follows:

Recommendation A:

1. Require the auditors to review the Federal Aviation Administration Acquisition Management System regulations and perform additional audit procedures to test internal control over and compliance with the criteria related to procurement compliance requirements for FY 2001.

DCAA Response. We performed additional audit procedures including a comparative analysis between the FAR and the FAA AMS regulations as they pertain to the "Procurement and Suspension and Debarment" compliance requirement. This was done to ensure that there were no material differences between the regulations and to ensure that the FAA's interests are being protected. The result of the comparative analysis shows that there is no material difference between the regulations. Therefore, the FAR provides adequate coverage as a basis for determining compliance with the "Procurement and Suspension and Debarment" compliance requirement.

1

FOR OFFICIAL USE ONLY

Enclosure

The documentation supporting the additional procedures performed was provided to your office on September 16, 2003, and is in addition to the auditor's understanding and testing of internal controls and compliance considering the FAR requirements.

2. Require the auditors to revise the Schedule of Findings and Questioned Costs to include the circumstances for the qualification as an audit finding for the FY 2001 single audit report.

DCAA Response. We issued supplemental audit report no. 2161-2001G10110001S1, dated August 27, 2003, which revised the "Schedule of Findings and Questioned Costs" to incorporate an audit finding (01-I) related to the circumstances for qualifying the audit report. The initial report did not include the specific qualification as a result of our initial inquiries to DCAA Headquarters and discussions with the assist auditor. Further discussions ensued which clarified the original position. This clarification removed the initial barrier raised.

3. Revise the FY 2001 MITRE Corporation single audit report to reflect the qualified opinion over compliance in the Schedule of Findings and Questioned Costs, eliminate the reference to providing an opinion on the Schedule of Expenditures of Federal Awards, and to include references to the AMS regulation where appropriate.

DCAA Response. We issued a supplemental audit report dated August 27, 2003 which reflects the qualified opinion and includes the appropriate references to the FAA AMS. On September 24, 2003, we issued a replacement page (1) to the supplemental audit report that removes the opinion statement related to the "Schedule of Expenditures of Federal Awards". Based upon the coordinated audit effort agreed to between DCAA and PricewaterhouseCoopers (PWC), PWC was responsible for expressing an opinion on the Schedule of Expenditures of Federal Awards. The revised page clarifies this.

4. Submit a copy of the revised FY 2001 single audit report to the Controller of the MITRE Corporation.

DCAA Response. A copy of the supplemental audit report dated August 27, 2003 and the replacement page distributed on September 24, 2003 were provided to representatives of the MITRE Corporation on September 3, 2003 and September 24, 2003, respectively.

5. Review and consider Federal agency specific regulations in all future OMB Circular A-133 audits.

DCAA Response. For future A-133 audits, we will, as part of the audit planning process, identify relevant Federal agency specific regulations, and incorporate them as part of the scope of audit.

6. For all future OMB Circular A-133 audits, require auditors to document: (a) specific work paper references when relying on procedures performed in other audit assignments to satisfy current audit objectives and (b) testing methodology used to test internal controls along with compliance.

DCAA Response. For future A-133 audits, we will provide more detailed cross referencing to other audit assignments in order to specifically identify procedures performed that are being relied upon to satisfy current audit objectives. In addition, more specific details concerning testing methodology will be provided.

We have provided our comments as requested for your use and consideration prior to the issuance of your Final Report. A supplemental audit report, incorporating the necessary FAA AMS referencing, the correction of the typographical error related to the opinion, and the inclusion of an audit finding related to the report qualification, was issued on August 27, 2003. In addition, a replacement page was issued on September 24, 2003 to remove the reference to the opinion associated with the Schedule of Expenditures of Federal Awards. If you have any questions regarding this memorandum, please contact the undersigned at (781) 377-5644.

Signed Russell J. Piselli, Jr.
Russell J. Piselli, Jr.
Branch Manager
Northern New England Branch Office

Copy furnished:
RD/DRD-2
RAMC-2
PQA (M. Parvin)
RQA-2

The MITRE Corporation Comments

MITRE

12 September 2003
B082-L03-005

Ms. Patricia A. Brannin
Deputy Assistant Inspector General for Audit Policy and Oversight
Department of Defense
400 Army Navy Drive
Arlington, Virginia 22202-4704

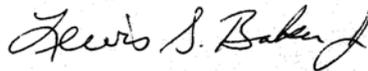
Reference: Letter dtd. August 29, 2003

Dear Ms. Brannin,

Per the referenced letter, I contacted Sherry D. Angwafo to discuss the discrepancy with Part III of our A-133 Data Collection Form. Although the data collection form was revised and resubmitted to the Federal Audit Clearinghouse on 20 February 2003, it still did not comply with the level of detail required per your audit. The FY 2001 Data Collection Form did not provide the required level of detail per OMB Circular A-133. Section § 320(b)(2)(x) requires that Part III of the Data Collection Form list the programs with the R&D cluster at the same level of detail presented in the Schedule of Expenditures of Federal Awards.

A revised FY 2001 Data Collection Form (report ID 92093) is being submitted per direction to the Federal Audit Clearinghouse to replace report ID 43665. The total value of the federal awards remains the same at \$656,187,435.00. The level of detail and the dollar amounts match exactly to the schedule of federal awards contained in the audit report 2161-2001G10110001 Appendix 4 on page 31.

~~Sincerely,~~



Lewis S. Baker, Jr.
Manager, General Accounting

The MITRE Corporation
7515 Colshire Drive
McLean, Virginia 22102-7508

PriceWaterhouseCoopers LLP Comments

Final Report
Reference



PriceWaterhouseCoopers LLP
1751 Pinnacle Drive
McLean VA 22102-3811
Telephone (703) 918 3000
Facsimile (703) 918 3100

September 17, 2003

Ms. Patricia A. Brannin
Deputy Assistant Inspector General
For Audit Policy and Oversight
Department of Defense
400 Army Navy Drive
Arlington, VA 22202-4704

Re: Discussion Draft Report on Quality Control Review Project No. D2003-OC-0102

Dear Ms. Brannin:

This letter responds to your August 29, 2003 draft report on the quality control review of PriceWaterhouseCoopers LLP's A-133 Audit Report of the MITRE Corporation for the year ended September 30, 2001. We would like to request that the following modifications be considered in the draft report mentioned above:

- **Other Matters of Interest – Audit Documentation Requirements and Enhancements** - We request that references to "PwC auditors" be changed to "the PwC audit team on the MITRE Corporation engagement". PriceWaterhouseCoopers has established policies that address the items noted, and we believe the recommendation should be directed specifically towards further diligence on the part of the MITRE engagement team in this area.
- **Other Matters of Interest – Continuing Professional Education** - We request that the recommendation be limited to the need for the MITRE engagement team to better track the GAO CPE Compliance Forms required by PwC policy. The firm requirement for maintenance of these compliance forms has been put in place so that each member of the team is responsible for his/her compliance. The exception noted during the review was that a form was missing and not that a form was filled out incorrectly. Therefore, we would like to request that the recommendation regarding cross checking to L&E records be removed.

The PwC MITRE engagement team appreciates the significance of this review and will implement the final agreed-upon recommendations. Please contact me at 703-918-3785 to let me know if you are amenable to these modifications or if you have any questions.

Very truly yours,

W. Larry Farmer
Partner
Assurance Business Advisory Services

Clarification

Request
adopted

Evaluation Team Members

The Deputy Inspector General for Inspections and Policy, Office of the Inspector General of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

Carolyn R. Davis
Janet Stern
Sharon N. Vasquez
Sherry D. Angwafo
Monica M. Harrigan
Krista S. Gordon
Jacqueline N. Pugh